Hawaiian Electric Company, Inc. • PO Box 2750 • Honolulu, HI 96840-0001

William A. Bonnet
Vice President
Government & Community Affairs

April 30, 2008

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PUBLIC UTILITIES
COMMISSION

The Honorable Chairman and Members of the
Public Utilities Commission of the State of Hawaii
465 South King Street
Kekuanaoa Building, First Floor
Honolulu, Hawaii 96813

Dear Commissioners:

Subject: Docket No. 05-0315 – HELCO 2006 Test Year Rate Case
<u>Stipulated Settlement Letter – Supplemental Information</u>

Enclosed for filing is supplemental information to the Stipulated Settlement Letter that Hawaii Electric Light Company, Inc. ("HELCO" or "Company") and the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs ("Consumer Advocate") (collectively referred to as the "Parties") jointly filed on April 5, 2007.

Exhibit 1 is identical to Exhibit 1 of the April 5, 2007 Stipulated Settlement Letter except that it also includes calculations and citations (shown in red) supporting the information in the letter. Exhibits 2 and 3 summarize the Parties' positions and settlement on the issues relating to the Keahole CT-4 and CT-5 generating units.

Sincerely,

Concurred:

Catherine P. Awakuni
Executive Director
Division of Consumer Advocacy
Department of Commerce and Consumer Affairs

Enclosures

cc: Division of Consumer Advocacy
Keahole Defense Coalition, Inc.

DOCKET NO. 05-0315
HELCO 2006 TEST YEAR RATE CASE
AGREEMENTS REACHED BETWEEN HELCO AND THE CONSUMER ADVOCATE

SALES FORECAST AND REVENUES

1. Sales – The parties agree on the test year sales estimate of 1,148.0 GWh and accept the test year sales by rate schedule shown on HELCO-201 and the average number of customers as shown on HELCO-206.

2. Electric Sales Revenues - HELCO-301 provides HELCO's 2006 test year electric sales revenues at present rates, based on the test year sales estimate and average number of customers in HELCO-201 and HELCO-206. The Consumer Advocate proposed an adjustment of $4,385,000 to Energy Cost Adjustment Clause ("ECAC") revenues in CA-101, Schedule C-2, based on an Energy Cost Adjustment Factor ("ECAF") of 8.621¢/kwh at present rates. For purposes of settlement, the Consumer Advocate agrees with HELCO's ECAF of 8.998¢/kwh at present rates as shown on HELCO-R-2201, the sales heat rates shown on HELCO-R-2205, and the resulting ECAC revenues of $103,297,000 at present rates shown on HELCO-R-302 ($39,177.3 + $8,818.0 + $31,933.9 + $1,547.7 + $21,424.2 + $395.9 = $103,297,000). The agreements result in a decrease of $58,000 in test year ECAC revenues. ($39,199.1 + $8,822.9 + $31,951.6 + $1,548.5 + $21,436.1 + $396.1 = $103,354,300 – ref: HELCO-302; $103,354,300 - $103,297,000 = $57,300 ~ $58,000) The Company also increased electric sales revenue by $21,000 to update Rider M subscribership. (HELCO RT-3, p. 4, l. 25; p. 5, l. 3) As a result, the Consumer Advocate accepts HELCO's 2006 test year electric sales revenue estimate of $323,147,700 at present rates shown on HELCO-R-301.

   The parties agree that the ECAC should continue and that it satisfies Act 162 (Session Laws of Hawaii, 2006), and agree to the methodology used to calculate the ECAF, including the addition of the "DG Component" and propane start-up costs in said calculation, as proposed in HELCO RT-22.

3. Other Operating Revenues – HELCO-710 provides HELCO's 2006 test year other operating revenues of $904,400 at present rates. The Consumer Advocate proposed an adjustment of $21,000 to update revenues according to an extrapolation of August 2006 year-to-date actuals. (CA-101, Schedule C-1) For purposes of settlement, the Company accepts this adjustment. The resulting test year estimate for other operating revenues at present rates is $925,400 (before the adjustment for the increased non-sales related charges proposed by the Consumer Advocate), as shown at HELCO-R-706, p. 2.

   The Consumer Advocate proposed that HELCO adopt the increased non-sales related charges that were proposed by HECO in Docket No. 04-0113. For purposes of settling these issues in this proceeding, HELCO is willing to agree with the Consumer Advocate's proposal to increase the non-sales related charges (i.e., Returned Payment Charge, Field Collection Charge, and Service Establishment Charges) to the levels proposed by HECO in Docket No. 04-0113. The Consumer Advocate did not object to revising the Returned Check Charge to a Returned Payment Charge or to multiplying a factor of .17% to the electric sales revenues at proposed rates to determine Late Payment Charges at proposed rates. (HELCO RT-7, p. 6, l. 16) HELCO and the Consumer Advocate agree that the resulting test year other operating revenues at proposed rates are $1,096,500, as shown at HELCO-R-706, p. 1.

EXPENSES

4. Fuel Oil Expense – For purposes of settlement, the Consumer Advocate accepts HELCO's use of its production simulation model, the results of this model as reflected in HELCO RT-4 (e.g., HELCO-R-401), HELCO's test year estimates of $78,090,700 for fuel oil expense (based on February 1, 2006 fuel oil prices) and $492,800 of fuel related expense for a total fuel expense of $78,583,500. See also HELCO's Opening Brief, p. 20-22.

   HELCO agrees to continue filing the annual calibration factor reports required by the Commission in Decision and Order No. 18365 filed on February 8, 2001 in Docket No. 99-0207 at pages 18 to 19.

5. Purchased Power Expense - For purposes of settlement, the Consumer Advocate agrees with HELCO's test year estimate of $117,210,000, as shown on HELCO-R-545. HELCO's test year estimate is based on its rebuttal testimony production simulation as explained in HELCO RT-4. See also HELCO's Opening Brief, p. 21.

6. Production Expense – In its response to CA-IR-447 (HELCO T-5), the Company made adjustments totaling ($1,303,000), to which the Consumer Advocate agreed. In addition the Consumer Advocate made three adjustments:

   - ($185,000) as calculated in CA-101, Schedule C-4 to reduce test year production O&M labor expenses based on actual 2006 labor expense information in HELCO's response to CA-SIR-5
   - ($382,000) as calculated in CA-101, Schedule C-5 to reduce non-labor materials expense based on an average of recorded materials expenses for the period 2004-2006
   - ($130,000) as shown in CA-101, Schedule C-6 to remove LPT turbine replacement overhaul costs.

   Although the Company did not initially agree with the Schedule C-5 adjustment asserting that it did not consider the impact of other non-labor expenses and did not use the same methodology as the CA-101 Schedule C-4 adjustment to the production O&M labor expenses, it agreed to the three adjustments to minimize the number of issues in this proceeding and to reach settlement. HELCO and the Consumer Advocate agree that these adjustments result in a test year production O&M expense of $21,041,000, as shown on HELCO-R-501. See also HELCO's Opening Brief, p. 22 to 23.

7. Transmission and Distribution (T&D) Expense – In its response to CA-IR-447 (HELCO T-6), the Company made adjustments totaling ($132,000) to its test year T&D expense. The Consumer Advocate accepted the adjustment as shown on CA-101 Schedule C-14.

   The Consumer Advocate also proposed an adjustment of ($326,000) in CA-101, Schedule C-19 to remove its estimate of labor costs for unfilled T&D positions. The Company disagreed with the adjustment, stating that its rebuttal testimony test year T&D O&M labor expense estimate (before settlement) of $3,372,000 was significantly less than the actual T&D O&M labor expense incurred in 2006 of $3,652,000. See HELCO-R-601. For purposes of settlement, HELCO and the Consumer Advocate agreed to an adjustment of ($163,000). See also HELCO RT-6, p. 4-6.

   With these two adjustments, HELCO and the Consumer Advocate agree that the test year T&D expense is $8,705,000, as shown on HELCO-R-601. See also HELCO's Opening Brief, p. 23-24.

8. Customer Accounts Expense – The Consumer Advocate accepts the Company's test year estimate of $3,186,000 for customer accounts expense excluding allowance for uncollectible accounts, as shown on HELCO-701 and HELCO-R-702.

9. Allowance for Uncollectible Accounts - The Consumer Advocate accepts the Company's test year estimate of $388,000 for uncollectible expense at present rates, as shown on HELCO-701 and HELCO-R-702.

10. Customer Service Expense - To minimize the issues in this proceeding, the Company agrees with the Consumer Advocate's proposed adjustment of ($168,000) in CA-101, Schedule C-9 to reclassify the DSM administration costs for recovery through the DSM surcharge mechanism.

    In response to the Consumer Advocate's concerns with including the costs of the Company's Renewable Energy and Energy Efficiency Program for Affordable Housing ("REEEPAH") in the test year revenue requirements, HELCO agrees to remove its test year estimate of $500,000 for REEEPAH expenses (as proposed in CA-101, Schedule C-10). HELCO will include the REEEPAH in HELCO's IRP-3, rather than seek Commission approval of the program in the instant rate proceeding. Should the Commission approve HELCO's request to implement the REEEPAH in HELCO's IRP-3, HELCO will recover the costs of the program implementation through a Renewable Energy Programs Adjustment clause in the Integrated Resource Planning ("IRP") Cost Recovery Provision.

    In CA-101, Schedule C-11, the Consumer Advocate accepted the Company's adjustment of ($29,000) in its response to CA-IR-447 to reduce CHP project support costs. For customer service projects, the Consumer Advocate extrapolated October 2006 year-to-date actual billings to 12 months to determine its ($67,000) adjustment. (CA-101, Schedule C-11) The Company proposed to use the recorded December 2006 year-to-date amount of $47,000 in lieu of the Consumer Advocate's extrapolated amount. (HELCO RT-8, p. 5, l. 3) This results in a ($46,000) adjustment ($47,000 – $93,000 = -$46,000; $93,000 comes from CA-101, Schedule C-11, l. 7; replace $26,000 with $47,000 on line 6 of CA-101, Schedule C-11) for customer service projects which the Consumer Advocate accepted for the purposes of settlement. The sum of the CHP support and customer service project adjustments is ($75,000) [-$29,000 – $46,000 = -$75,000].

HELCO and the Consumer Advocate agree that the adjustments above result in a test year estimate of $1,508,800 for customer service expense as shown on HELCO-R-801, (note 1).

11. <u>Administrative and General (A&G) Expense</u> – The Consumer Advocate and HELCO agree on the following two adjustments in CA-101:

- C-15 – ($131,000) adjustment for T&D training based on HELCO responses to CA-IR-447 and CA-SIR-35, which reduced the estimated T&D training expense to 2006 actual levels.
- C-21 - $321,000 adjustment for A&G corrections based on the Company's response to CA-IR-447.

HELCO and the Consumer Advocate also agree on the implementation of a pension tracking mechanism as proposed by the Consumer Advocate. In addition, HELCO and the Consumer Advocate agree to implement an OPEB tracking mechanism as proposed by the Company in the rebuttal testimony of Ms. Tayne Sekimura (HELCO RT-18) and documented in HELCO-R-1808, HELCO-R-1809, HELCO-R-1810 and HELCO-R-1811. The Consumer Advocate and HELCO agree that upon Commission approval of the pension tracking mechanism HELCO's test year revenue requirement would include $2,554,000, which is the amortization of the ending pension asset balance (ending pension asset of $12,771,000 (CA-IR-464, p. 60) divided by 5), in addition to the test year net periodic pension cost ("NPPC") of $2,744,000 (HELCO RT-10, p. 2, l. 20-25), as explained in HELCO RT-9, p. 11, l. 21-23 and HELCO RT-18, p. 16, l. 13-17.

As a result of the T&D training and A&G correction adjustments and the inclusion of pension amortization expenses, HELCO and the Consumer Advocate agree that HELCO's test year expense for A&G expenses is $15,214,000 as shown on HELCO-R-901.

12. <u>Depreciation and Amortization Expense</u> – The Consumer Advocate proposed adjustments totaling ($1,088,000) [= -$668,000 + -$420,000] (in CA-101, Schedules C-17 and C-18) to depreciation expenses based on its proposed write down of $22,373,000 [($14,407,227 + $9,600,000) minus ($1,003,000 + $631,000)] (net of accumulated depreciation) for CT-4 and CT-5 investments at the Keahole Generation Station. See CA-101, Schedules B-7 and B-8. As described in a later section (referring to item 16 of this document), HELCO and the Consumer Advocate settled on a write down of

$12,000,000 (net of accumulated depreciation) for the CT-4 and CT-5 costs. See HELCO-RWP-1205, p.1. The parties agreed that the depreciation adjustment would be ($598,000) as shown on HELCO-RWP-1205 p.2.

HELCO adjusted the amortization of the net SFAS 109 regulatory asset by ($4,000) to reflect the actual 2006 amount of $357,000 as shown in HELCO-R-1201. The Consumer Advocate agreed with the adjustment.

HELCO and the Consumer Advocate agree that the resulting test year depreciation and amortization expense is $28,772,000, as shown on HELCO-R-1201.

13. Taxes Other Than Income Taxes - The Consumer Advocate proposed an adjustment of ($100,000) to payroll taxes as shown on CA-101, Schedule C-12. For settlement purposes the Company agrees with the Consumer Advocate's FICA/Medicare adjustment calculation. The T&D labor adjustment amount at line 6 has been revised to ($163,000) to reflect the agreement reached on the T&D labor adjustment described in item 7 above. The resulting FICA/Medicare tax adjustment would be ($80,000). See HELCO-RWP-1301, p.1.

Although the Company does not agree with the use of an employee count of 340 (CA-101, Schedule C-12, l. 12) to calculate the FUTA/SUTA taxes, for settlement purposes, it will agree with the Consumer Advocate's adjustment of ($8,000) as shown on CA-101, Schedule C-12, l. 17.

The Company agrees with the Consumer Advocate's adjustment to correct revenue taxes at present rates for a bad debt deduction as shown on CA-101, Schedule C-13. The Consumer Advocate proposed a ($25,000) reduction in revenue taxes. The Company recalculated the adjustment according to the changes in electric sales and other operating revenues as explained in items 2 and 3 above and determined the amount to be ($27,000) [$28,736,000-$28,763,000 = -$27,000]. See HELCO-R-1301, l.8.

The parties agree with the resulting test year amount of $30,178,000 for taxes other than income taxes at present rates, as shown on HELCO-R-1301.

14. Interest on Customer Deposits – The Consumer Advocate agrees with HELCO's test year estimate of $55,800 as shown on HELCO-WP-706.

15. Income Taxes – At CA-101, Schedule C-20, the Consumer Advocate proposed an adjustment to account for tax savings that were created by the American Jobs Creation Act. Although the Company does not agree with the Consumer Advocate's calculation of the adjustment and questioned whether the Section 199 income tax deduction would apply once the final test year numbers are established, the Company agrees to the Consumer Advocate's ($160,000) adjustment for the purpose of minimizing the issues in this proceeding.

RATE BASE

16. Net Cost of Plant in Service – In Schedules B-7 and B-8 in CA-101, the Consumer Advocate proposed adjustments to remove $24,007,000 (=$14,407,000 + $9,600,000) associated with the cost of the Keahole CT-4 and CT-5 generating units from plant in service (and to remove the associated accumulated depreciation of $1,634,000 = $1,003,000 + $631,000) on an average test year basis. HELCO's position was that there should be no adjustments to the CT-4 and CT-5 plant in service amounts. For the purposes of reaching a settlement, HELCO and the Consumer Advocate agreed to an adjustment of ($12,898,000) of gross plant in service, less $898,000 of average accumulated depreciation for 2006 – i.e., ($12,000,000) of plant in service net of average accumulated depreciation – associated with the cost of the CT-4 and CT-5 units at the Keahole generating station. See HELCO-RWP-1205, p.1.

    At CA-101, Schedule B-1, the Consumer Advocate proposed an average test year adjustment $1,205,000 to update plant additions according to 2006 recorded amounts. HELCO reasoned that all items constituting the test year net cost of plant in service should be updated to 2006 recorded amounts as shown in HELCO-R-1602. As part of an overall settlement, the Consumer Advocate agrees to update those items to reflect the 2006 recorded amounts.

    HELCO and the Consumer Advocate agree that the average test year balance for net cost of plant in service is $448,296,000 as shown on HELCO-R-1602. See also HELCO-RWP-1602, p.1.

17. Property Held for Future Use – As reflected in HELCO-R-1601, HELCO proposed to adjust the average test year balance for property held for future use up to $129,000 from $64,500 to reflect that the Palani substation project was not completed in 2006. The $64,500 included in the average test year property held for future use balance in the Company's direct testimony was based on $129,000 included in the 12/31/05 balance and $0 included in the 12/31/06 balance. See HELCO-1601, p.1. Since the test year plant additions will be based on actuals, the Palani substation project will not be included in plant in service, and the Palani substation site will continue to be included in property held for future use. For purposes of settlement, the Consumer Advocate agrees with this adjustment. See HELCO-RWP-1402, p.1.

18. Fuel Inventory – For purposes of settlement, the Consumer Advocate accepts HELCO's average test year balance of $8,240,900 as shown on HELCO-R-401 and HELCO-R-408. HELCO's test year estimate is based on its rebuttal testimony production simulation as explained in HELCO RT-4. See also HELCO's Opening Brief, p. 38.

19. Materials and Supplies Inventories – In its response to CA-IR-448 (HELCO T-16), HELCO corrected its calculation of the test year materials and supplies (T&D and production) inventories to reflect the average of the month-end values of the material and supply inventory for the 13-month period ending 12/31/06. The Consumer Advocate

accepted the adjustment for the T&D inventory but based on its response to HELCO/CA-IR-111, did not accept the adjustment for production inventory. For purposes of settlement, HELCO and the Consumer Advocate agree that the average test year balance is $3,350,000 as shown on HELCO-R-1605. See also HELCO's Opening Brief, p. 38-39 and HELCO RT-16, p. 3-4.

20. Unamortized Net SFAS 109 Regulatory Asset – As shown in HELCO-R-1305, HELCO revised its net SFAS 109 regulatory asset to reflect the recorded balance as of the end of 2006 such that the average test year balance is $26,000 lower. HELCO and the Consumer Advocate agree that the average test year balance is $10,772,000 as shown on HELCO-R-1305.

21. Pension Asset – As reflected in CA-101, Schedule B-2, the Consumer Advocate included the recorded 2006 pension asset balance in rate base which resulted in an average test year rate base adjustment of ($29,000). Although the parties disagree on the criteria to determine when a pension asset should be included in rate base, the Company and the Consumer Advocate agree that the pension asset should be included in HELCO's rate base with an average test year adjustment of ($29,000), such that the average test year balance is $14,143,000, as shown on HELCO-R-1601.

22. OPEB Amount - HELCO and the Consumer Advocate agree that the OPEB amount is $0 as shown on HELCO-R-1601.

23. Unamortized CIAC - The Consumer Advocate and HELCO both used HELCO's 12/31/05 adjusted balance (HELCO-1604) of $56,925,000 as the beginning of test year balance for CIAC. For the test year ending balance, the Consumer Advocate started with the 12/31/06 estimated balance of $58,149,000 but replaced the estimated cash receipts and in-kind transfers ($2,975,000) with the 2006 recorded amounts ($4,219,000) provided in response to CA-SIR-51 to derive an end of test year balance of $59,393,000 (as shown in CA-101, Schedule B-2). The Consumer Advocate's average test year balance was $58,159,000. HELCO proposes to use the 12/31/06 recorded amount of $59,936,000 for all CIAC items (i.e., cash receipts, in-kind receipts, transfer from advances and amortization) for its end of test year balance, as shown in HELCO-R-1603. For purposes of settlement, the Consumer Advocate accepts HELCO's average test year balance is $58,431,000, as shown in HELCO-R-1603.

In CA-101, Schedule B-2, the Consumer Advocate also included a placeholder for post-test year collections of CIAC for 2006 plant additions. The Company opposed the inclusion of an adjustment for post-test year collections of CIAC since the Consumer Advocate's and HELCO's respective average test year balances both already included collections of CIAC as of the end of the test year for post-test year plant additions. The Company further stated that if post-test year collections of CIAC (for test year plant additions) are included as an offset to rate base, collections of CIAC (and customer advances) for post-test year plant additions must be removed from the test year rate base.

For purposes of settlement, the Consumer Advocate will not pursue this adjustment in this proceeding.

24. Customer Advances - The Consumer Advocate and HELCO both used HELCO's 12/31/05 recorded balance (HELCO-1605) of $28,597,000 as the beginning of test year balance for customer advances. For the test year ending balance, the Consumer Advocate started with the 12/31/06 estimated balance of $29,254,000 but replaced the estimated receipts ($3,231,000) with 2006 recorded amounts ($6,413,000) provided in response to CA-SIR-51 to derive an end of test year balance of $32,436,000 (as shown in CA-101, Schedule B-2). The Consumer Advocate's average test year balance was $30,517,000. HELCO proposes to use the 12/31/06 recorded amount of $31,780,000 for its end of test year balance, as shown in HELCO-R-1604. For purposes of settlement, the Consumer Advocate accepts HELCO's average test year balance is $30,189,000, as shown in HELCO-R-1604. The Consumer Advocate will also not pursue an adjustment for post-test year collections of customer advances.

25. Customer Deposits – HELCO and the Consumer Advocate agree on an average test year balance of $930,500 for customer deposits, as shown on HELCO-WP-706.

26. Accumulated Deferred Income Taxes – In CA-101, Schedule B-3, the Consumer Advocate proposed a number of adjustments to accumulated deferred income taxes. Although the Company does not agree with all of the Consumer Advocate's adjustments, for the purposes of minimizing the issues in this proceeding, the Company and the Consumer Advocate were able to agree on an adjustment of ($1,367,000) on an average test year basis, as shown on HELCO-R-1304.

HELCO and the Consumer Advocate were also able to agree on the deferred tax impact of the Keahole CT-4 and CT-5 write down, as shown on HELCO-RWP-1304c.

For purposes of settlement, HELCO and the Consumer Advocate agree on an average test year balance of ($25,870,000) for accumulated deferred income taxes, as shown on HELCO-R-1304.

27. Unamortized ITC – The Company agrees with the Consumer Advocate's proposed adjustment in CA-101, Schedule B-4 to update the unamortized state ITC to an average test year balance of ($11,865,000), based on recorded 12/31/05 and 12/31/06 amounts, before any adjustments for the Keahole settlement.

HELCO and the Consumer Advocate were also able to agree on the state ITC impact of the Keahole CT-4 and CT-5 write down, as shown on HELCO-RWP-1303.

For purposes of settlement, HELCO and the Consumer Advocate agree on an average test year balance of $11,562,000 for unamortized state ITC, as shown on HELCO-R-1303.

28. Working Cash – As shown in footnote b of Schedule B of CA-101, the Consumer Advocate adopted the Company's test year estimate of $2,183,000 for working cash at present rates as shown in HELCO-1606. The Consumer Advocate used a ratio of the Company's change in rate base - working cash to HELCO's proposed increase and applied the ratio to its own proposed increase of $16,643,000 to derive its test year estimate of ($2,204,000) for the change in rate base – working cash. The Company revised its working cash calculations as explained in HELCO RT-16, p. 9-13. HELCO and the Consumer Advocate agree on a test year estimate of $2,460,000 for working cash at present rates and ($3,170,000) for change in rate base – working cash, as shown on HELCO-R-1606.

COST OF CAPITAL

29. Capitalization. The Consumer Advocate accepted HELCO's capitalization amounts by type of security as shown on HELCO-WP-2101, p. 3. As a result of reflecting the December 31, 2006 recorded balances, HELCO's revised test year average balances, as shown on HELCO-R-1801, are:

    1. Short-term borrowing: $49,550,000
    The average short-term borrowing balance increased because the 2006 year-end recorded short-term borrowing balance is higher than the 2006 year-end forecast presented in direct testimony. This was primarily due to the level of capital expenditures which the Company had anticipated funding with a taxable debt issuance. Because the taxable debt was not issued in 2006, capital expenditures that would have been financed by the issuance of taxable debt were instead financed with short-term borrowings.
    2. Long-term borrowing: $117,408,000
    Changes to the long-term borrowing balance are attributable to the 2006 recorded unamortized cost related to the Syndicated Credit Facility ("SCF") and the 2006 recorded unamortized issuance cost related to the revenue bonds which the Company issued on March 27, 2007. HELCO's proposal to recover the unamortized SCF cost through the cost of capital calculation for ratemaking was discussed in HELCO's response to CA-IR-448 (HELCO T-18). On March 14, 2007, the Commission issued Decision and Order No. 23301 to approve the Company's SCF application in Docket No. 2006-0360
    3. Taxable debt: zero
    HELCO has also removed taxable debt from the test year capital structure since HECO/HELCO/MECO have agreed with the Consumer Advocate to pursue approval to issue special purpose revenue bonds instead of taxable debt in the Stipulation filed on August 29, 2006 in Docket No. 05-0330. On March 2, 2007, HECO/HELCO/MECO and the Consumer Advocate filed a settlement letter which resolved the remaining issues in that proceeding. On March 9, 2007, the Commission issued Decision and Order No. 23292 approving the issue. The revenue bonds were sold on March 27, 2007.
    4. Common equity: $191,544,000

Recorded December 31, 2006 equity balances per books reflect AOCI charges related to pension and OPEB. For ratemaking purposes, common equity has been restored for the AOCI charges related to pension and OPEB plans as of December 31, 2006. This is consistent with the approach in CA-T-4, p. 26-27, which did not reduce the estimated year-end balance to reflect charges to AOCI. The Consumer Advocate indicated that it accepts the restoration of common equity for AOCI charges for the purposes of calculating the cost of capital for ratemaking purposes.

Since these test year average amounts changed, the proportions of all components of cost of capital changed, as shown on HELCO-R-1801, p. 1.

30. Cost of Capital. There were no differences between HELCO and the Consumer Advocate with respect to the earnings requirement for short-term debt, long-term debt, taxable debt, hybrid securities and preferred stock. HELCO proposes to update the long-term debt earnings requirement for increase in the annual requirement resulting from the annual amortization of the SCF cost and a decrease in the average long-term debt balance as a result of the 2006 recorded unamortized issuance costs. This increased the long-term debt earnings requirement from 5.90% to 5.92%. The Consumer Advocate indicated that this change in the long-term debt rate is acceptable if the increase was attributable to actual transaction costs incurred. As explained in HELCO RT-18, p. 3-4, 8-9, the increase in the effective cost of long-term borrowings is due to an increase in the annual requirement resulting from the annual amortization of HELCO's share of the SCF cost and a decrease in the average long-term debt balance as a result of the 2006 recorded unamortized issuance costs. The calculation of the effective rate is shown on HELCO-R-1803.

31. Return on Common Equity. In HECO's 2005 test year rate case, HECO recommended a rate of return on common equity of 11.0% in rebuttal testimony (Docket No. 04-0113, HECO RT-20, p. 82). The Consumer Advocate recommended a rate of return on common equity of between 8.50% and 10.0% and utilized a mid-point of 9.25% in its determination of revenue requirements (Docket No. 04-0113, CA-101, Schedule D, footnote b). The DOD recommended a rate of return of 9.0% (Docket No. 04-0113, DOD T-2, p. 2, l. 20). In the interest of compromise and considering the impact of the other issues on revenue requirements in Docket No. 04-0113, the parties reached a negotiated compromise to utilize a return on common equity of 10.7% in order to determine revenue requirements in that rate case (Stipulated Settlement Letter, filed September 16, 2005, Exhibit II, p. 11). (In Interim Decision and Order No. 22050, p. 6-7, the Commission found the 10.7% return on common equity, as was agreed upon by the parties in their settlement agreement, to be reasonable.) As HECO explained in the settlement negotiations and at the hearing, HECO's willingness to compromise on this essential issue was predicated on the overall settlements reached by the parties.

In this case, HELCO recommended a rate of return on common equity of 11.25% in direct testimony (HELCO T-17, p. 4, l. 4). The Consumer Advocate has recommended a range for the rate of return on common equity (9.5% to 10.25%) with a midpoint of

9.88% (CA-101, Schedule D, footnote b). For the purpose of settling this rate case, HELCO and the Consumer Advocate agree on a rate of return on common equity of 10.7% for the test year.

32. Composite Cost of Capital – As a result of the above, HELCO and the Consumer Advocate agree on a composite cost of capital of 8.33% (HELCO-R-1801, p. 1).

RATE DESIGN/COST OF SERVICE

Below are the agreements that HELCO and the Consumer Advocate reached on rate design issues as of the date of this settlement agreement. HELCO and the Consumer Advocate will continue settlement discussions to resolve the remaining rate design issues and will execute a separate settlement agreement to cover those items.

33. Cost of Service Study/Inter-Class Allocation of Increase - HELCO provided its embedded cost of service study in direct testimony based on a cost classifications methodology previously approved by the Commission. The Consumer Advocate proposed to change the classification of certain distribution costs from customer-related to demand-related costs, and proposed to change the classification of some non-fuel production O&M expenses from a demand to an energy classification. The Company prefers that these classifications remain as the Company originally proposed, which would be consistent with the cost of service methodology that the Company has used and the Commission has approved in prior rate cases. For purposes of settlement, the Consumer Advocate accepts the use of the Company's cost classification methodology explained above for cost of service study purposes in this proceeding.

34. Intra-Class Rate Design - With respect to intra-class rate design, HELCO proposed in direct testimony to revise the Schedule R minimum bill provision to the higher of $20.00 or the bill calculated based on 15% of the highest kWh usage in the last 11 months (this revised minimum bill provision would not apply to LIHEAP customers and net energy metering customers). The Consumer Advocate did not agree with HELCO's proposal based on considerations of tariff complexity, ratepayer equity and customer resistance. In addition, the Consumer Advocate maintained that there were alternatives to the revised Schedule R minimum bill that could accomplish the purpose of the revised tariff provision. To minimize the issues in this proceeding, the Company agrees not to revise the Schedule R minimum bill provision in this proceeding.

    HELCO's rate schedules include an adjustment (either 0.1% or 0.15%) that is applied to the customer's monthly energy and demand charge for each 1% of average monthly power factor above or below 85%. The Consumer Advocate proposes that a 0.1% adjustment be applied to the customer's monthly energy and demand charge for each 1% of average monthly power factor above or below 95% (CA-T-5, p. 79). For purposes of settling these issues in this proceeding, HELCO will accept a Schedule P power factor adjustment of 0.1% that leaves in place the 85% power factor level with credits for power factor above 85% and charges for power factor below 85% and agree to conduct a power factor study for the next HELCO general rate case..

35. Revisions to Rate Schedules/Rule Changes - The Company originally proposed to revise the Rider A charges based on the proposed cost of service in this case. The Consumer Advocate proposed to not change the Rider A charges. These charges are also being addressed in Docket No. 2006-0497 (standby service and interconnection tariff proceeding). The Company will accept the Consumer Advocate's proposal and will maintain the Rider A charges at their existing levels. Any changes to the Rider A charges will be addressed in the standby service tariff proceeding.

HELCO did not propose changes to the non-sales related charges such as the Returned Payment Charge, Field Collection Charge, Service Establishment Charges and Late Payment Charge. The Consumer Advocate proposed that HELCO adopt the increased non-sales related charges that HECO proposed in Docket No. 04-0113. For purposes of settling these issues in this proceeding, HELCO agrees with the Consumer Advocate's proposal to increase the non-sales related charges as reflected in the proposed modifications to Rule No. 7 and Rule No. 8 in HELCO-R-2015. The Consumer Advocate does not object to revising the Returned Check Charge to a Returned Payment Charge.

Keahole Issues

The average depreciated, original cost for CT-4 and CT-5 that was included in HELCO's average rate base for the 2006 test year prior to HELCO's settlement with the Consumer Advocate was $107,280,000. See HELCO-R-1505 at 1. This amount included the average depreciated, original cost ($5,896,000) for the $7.57 million that the Commission allowed to be included in rate base in Docket No. 99-0207 (HELCO's 2000 test year rate case) for the three "Pre-PSD" facilities, based on the Commission's estimate of the usefulness of these components to support the needs of the existing Keahole generating station prior to the addition of CT-4 and CT-5, as is discussed below. HELCO RT-1 at 11.

Other rate base deductions, in addition to Accumulated Depreciation, are associated with the CT-4 and CT-5 costs. Accumulated deferred income taxes ("ADIT") are deducted from rate base. In addition, the project generated state investment tax credits, and unamortized state investment tax credits ("SITC") are deducted from rate base. As a result, the net impact of CT-4 and CT-5 on HELCO's average rate base for the 2006 test year prior to the settlement was $98,829,000, as shown in HELCO-R-1505 at 1. HELCO RT-1 at 11-12; HELCO RT-13 at 16.

Consumer Advocate's Position

The Consumer Advocate's total proposed adjustment in its direct testimonies for the 2006 test year rate base (taking into account a partially offsetting adjustment to accumulated depreciation on Noise Abatement, Landscaping, and Legal costs, but not Rezoning costs) was $22.4 million.[1] See CA-101, Schedules B-7 & B-8; HELCO RT-1 at 16. The Consumer Advocate's position was presented in CA-T-3, pages 49-100, and related exhibits and responses to HELCO information requests ("IRs").

[1] Sum of: B-7 -14,407 + 1,003 = -13,404; B-8 -9,600 + 631 = -8,969; Total = -22,373.

HELCO's Position

As reflected in its direct testimonies, the Company's position was that the entire $117 million of gross plant investment (as of December 31, 2005) for the Keahole CT-4 and CT-5 project should be included in rate base, and there should be no adjustments to the CT-4 and CT-5 plant in service amounts.[2] The testimonies of the 14 witnesses, and their related exhibits and IR responses, which were presented on behalf of HELCO in response to the claims made by the Consumer Advocate with respect to the Keahole CT-4 and CT-5 project, as well as by the Keahole Defense Coalition ("KDC"), are summarized in HELCO's Opening Brief, pages 52-145. See HELCO RT-1 at 8, 13-22.

Settlement

The issue of rate base inclusion of the Keahole CT-4/CT-5 investments was highly contentious. HELCO RT-1 at 8-9. Decision making on each Keahole issue would have been a time consuming task because it would have required a full understanding and unraveling of the history of a project that spanned 15 years and involved law suits and land use and air permitting proceedings in addition to dockets at the Commission. (The Company introduced nine additional Keahole witnesses on rebuttal to address the history of the project and the reasons for the cost increases.) Such a process would have potentially delayed timely decision making on the entire rate case. HELCO RT-1 at 9.

Settlement discussions began on or about March 7, 2007 and continued through March 21, 2007. The parties exchanged proposals and counter-proposals during this period. During settlement discussions, it became clear that the Consumer Advocate would not agree to a

[2] See HELCO-R-1505, page 1. In comparison, the $107,280,000 amount specified on the previous page is the average depreciated, original cost for CT-4 and CT-5 that was included in HELCO's average rate base for the 2006 test year prior to settlement.

global settlement of the revenue requirement issues without a significant write down of the Keahole investment. On March 21, 2007, the Consumer Advocate provided a global settlement counter proposal, indicating it would not be willing to negotiate any further on the terms and that rejection would mean collapse of any chance of a global settlement.[3] HELCO decided that, all things considered, it would be best to accept the settlement, bring closure to the Keahole matter and allow HELCO to focus its attention on meeting the challenges of the future and providing efficient, reliable service to its customers. See HELCO RT-1 at 10.

For the purposes of reaching a settlement, HELCO and the Consumer Advocate agreed to an adjustment of $12,898,000 of gross plant in service, less $898,000 of average accumulated depreciation for 2006 (i.e., $12,000,000 of plant in service net of average accumulated depreciation) associated with the cost of the CT-4 and CT-5 units at the Keahole generating station. See Agreements Reached Between HELCO and the Consumer Advocate, attached as Exhibit 1 to HELCO's Stipulated Settlement Letter, Docket No. 05-0315, filed April 5, 2007, at 5; HELCO RT-1 at 12.

The settlement reflects approximately one-half the adjustment proposed by the Consumer Advocate. In Schedules B-7 and B-8 in CA-101, the Consumer Advocate proposed adjustments to remove $24,007,000 associated with the cost of the Keahole CT-4 and CT-5 generating units from plant in service (and to remove the associated accumulated depreciation of $1,634,000) on an average test year basis. The Consumer Advocate's total proposed adjustment in its direct testimonies for the 2006 test year rate base (taking into account a partially offsetting adjustment

[3] The global settlement also included a pension tracker, rate base inclusion/ amortization of the pension asset presented by the Consumer Advocate and not originally requested by HELCO. The agreement reached on the pension tracker, rate base inclusion and amortization of the pension asset issues significantly contributed to the Consumer Advocate and HELCO reaching what was believed to be a reasonable global settlement.

to accumulated depreciation on Noise Abatement, Landscaping, and Legal costs, but not Rezoning costs) was \$22.4 million. See CA-101, Schedules B-7 & B-8; HELCO RT-1 at 16.

The average depreciated, original cost for CT-4 and CT-5 that is included in HELCO's average rate base for the 2006 test year after the settlement is \$95,279,000. See HELCO-R-1505 at 2 (also attached as an exhibit to HELCO RT-15). This amount also includes the average depreciated, original cost (\$5,896,000) for the three "Pre-PSD" facilities. HELCO RT-1 at 12.

The net impact of CT-4 and CT-5 on HELCO's average rate base for the 2006 test year after the settlement is \$87,600,000, as shown in HELCO-R-1505 (revised April 30, 2008) at 2.[4] HELCO RT-1 at 13 (revised April 30, 2008).

As a result of the settlement, the Company had to immediately write down the \$12.9 million of gross plant investment. A write down of that magnitude substantially impacted consolidated earnings for the three Hawaiian Electric utilities for the first quarter of 2007. HELCO RT-1 at 8. Nevertheless, the global settlement negotiated by the Company and the Consumer Advocate resulted from extensive discussions on a number of complex issues. The parties negotiated the global settlement in good faith and believe that the overall rate impact results in fair and equitable rates for the Company and its customers.

[4] The Company has corrected the net impact amount shown on HELCO-R-1505 (page 2) of CT-4 and CT-5 on HELCO's average rate base for the 2006 test year after the settlement from \$87,955,000 to \$87,600,000. This correction was due to a correction to the estimated ADIT and SITC amount attributable to CT-4 and CT-5. Exhibit 3 provides a reconciliation between the original and corrected ADIT/SITC amounts. As shown on Exhibit 3, the corrected ADIT/SITC balance attributable to CT-4 and CT-5 is now consistent with the Keahole settlement adjustments to ADIT and the unamortized state capital goods excise tax credit for the 2006 test year.

Hawaii Electric Light Company, Ltd.
(In '000s)

2006 Test Year Average Estimated Acccumulated Deferred Income Taxes/State ITC	$	(8,451)	Pre-Settlement HELCO-R-1505, page 1 of 2, column I
Keahole Settlement Adjustment to Average Accumulated Deferred Income Taxes		469	HELCO-R-1304, page 1 of 1
Keahole Settlement Adjustment to Average Unamortized State Capital Goods Excise Tax Credit		303	HELCO-R-1303, page 1 of 1
Expected Average ADIT/State ITC Balance Related to Keahole CT-4/CT-5	$	(7,679)	
2006 Test Year Average Estimated Acccumulated *Deferred Income Taxes/State ITC*	$	(7,324)	Settlement HELCO-R-1505, *page 2 of 2, column I*
Difference (A)	$	355	
(A) Difference comprised of:			
12/31/2005 Accumulated Book Depreciation	$	598	HELCO-RWP-1205, Pg 1; HELCO-RWP-1304c, Pg 1
12/31/2006 Accumulated Book Depreciation		1,197	HELCO-RWP-1205, Pg 1; HELCO-RWP-1304c, Pg 1
	$	1,795	
Effective Tax Rate		38.909774%	
	$	698	
		2	
Effective on Average Rate Base	$	349	
Difference (rounding)		6	
Difference	$	355	

Note (A): The ADIT calculation supporting HELCO-R-1505, Page 2 (settlement) did not adjust accumulated book depreciation for the amounts related to the Keahole disallowance in determining the adjusted ADIT.
The ADIT was understated on this exhibit by $355,000.